

# FDIC State Profile

Summer 2005

## Michigan

### Michigan employment picture remains bleak.

- Michigan posted the highest unemployment rate (7.1 percent) in the nation and was the only state to record year-over-year job losses in first quarter 2005. Notably, the pace of annual job loss in Michigan slowed steadily since the end of the 2001 recession, and the number of people entering the labor force continued to rise.
- Continued losses in manufacturing (especially the motor vehicles and parts sectors), and to a lesser extent losses in the professional and business services and information sectors, outpaced smaller employment gains in the trade, transportation and utilities, leisure and hospitality, government, and education and health services sectors (See Chart 1).
- Muskegon-Norton Shores, Battle Creek, and Grand Rapids-Wyoming** were the state's only metropolitan areas to post year-over-year job growth greater than 1.0 percent in first quarter 2005. These Western Michigan job gains may be short-lived. For example, Steelcase recently announced it would slash its **Grand Rapids** based workforce by 6,300. Electrolux plans to layoff 2,700 employees in phases prior to closing its **Greenville** manufacturing plant in first quarter 2006. General Motors (GM) plans to close its **Lansing** car assembly plant and lay off nearly 3,000 hourly workers.
- Weakness in the auto industry, as evidenced by the recent downgrade of GM and Ford debt to below investment grade status, may dampen other areas of the state's economy as the auto makers cut expenses on such things as advertising, health care, supplies, and services.

### Michigan's employment woes weigh on household conditions.

- Michigan posted the lowest year-over-year personal income growth in the nation during every quarter of 2004. Personal income only grew 3.0 percent from fourth quarter 2003 to fourth quarter 2004, compared with 6.7 percent for the nation.
- During 2004, home price appreciation accelerated and outpaced the state's personal income growth rate (See

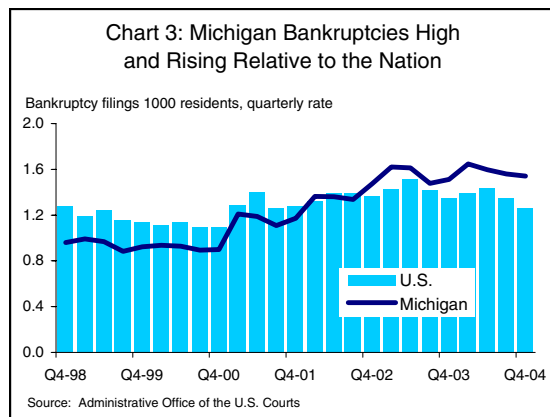
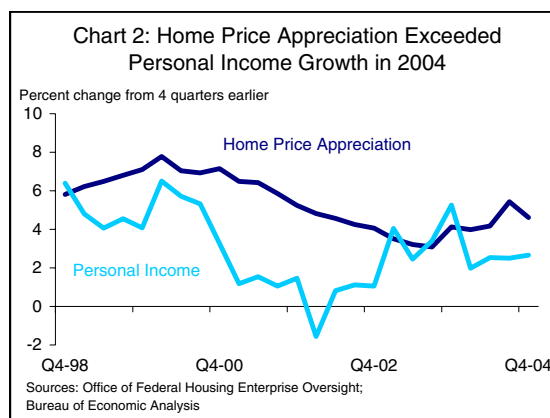
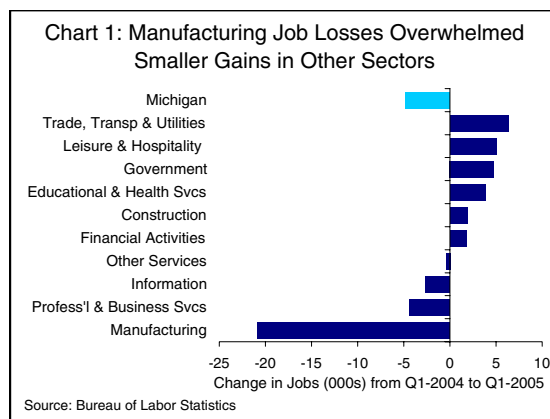


Chart 2). Michigan boasts the fourth highest homeownership rate in the country; however, continued weak employment conditions combined with slower income and population growth and rising long-term interest rates could reduce home affordability in the future.

- A rising per capita bankruptcy rate, relative to the nation, demonstrates a degree of greater financial stress on Michigan households (See Chart 3). The new bankruptcy law, which makes it more difficult to discharge debt in bankruptcy, may result in an increase in filings prior to the law's October 2005 effective date.

## Despite Michigan's economic woes, earnings performance at community institutions improved.

- Profitability at Michigan's community institutions<sup>1</sup> increased slightly in first quarter 2005 from a year ago. Significant gains in net interest income offset increased expenses and a modest decrease in noninterest income (See Table 1).
- Net interest margins benefited from an increase in the yield on earning assets, which more than offset an increase in the cost of funding earning assets between first quarter 2004 and first quarter 2005. Loan growth was funded partly by significant noncore funding growth as core deposits to assets declined to 62.1 percent. The 76.8 percent loan-to-asset ratio at Michigan's community institutions is among the highest in the nation.

## Adjustable-rate mortgages (ARMs) are increasingly popular.

- Michigan borrowers increasingly opted for ARMs despite the fact that the fixed rate for 30-year mortgages has remained near historical lows since 2003 (See Chart 4). Accelerated home price appreciation coupled with slower personal income growth, and an increasingly mobile work force that contemplates frequent relocations may be contributing to the increased use of ARMs.
- The concentration of 1-4 family ARMs at all insured institutions has not increased significantly as a percent of total loans over the past two years, rising from 5.0 percent two years ago to 5.4 percent as of first quarter 2005.

## Asset quality improved across all major loan categories.

- Total loans for community institutions headquartered in the state grew 8.8 percent from a year ago led primarily by growth in the commercial real estate, construction and development, and home equity portfolios.

- Delinquency rates among community institutions decreased by 30 basis points over the past year to 2.2 percent, and all major loan categories saw improvement (See Chart 5).
- Net charge off rates declined by 12 basis points from a year earlier to 0.2 percent for first quarter 2005 and remain at historical lows.

Income statement contribution (percent of average assets)	3 months ended March 31		Percentage Point Change
	2004	2005	
Net Interest Income	3.64	3.82	0.18
Noninterest Income	0.98	0.95	-0.03
Noninterest Expense	-3.17	-3.26	-0.09
Provision Expense	-0.17	-0.18	-0.01
Security Gains & Losses	0.02	0.01	-0.01
Pretax Net Income	1.30	1.34	0.04
Income Taxes	-0.37	-0.39	-0.02
Net Income (ROA)	0.93	0.95	0.02

Source: FDIC. Merger-adjusted data for Michigan's Community Institutions

Chart 4: Popularity of ARMs Increased Recently Despite Low Rates on Fixed-Rate Mortgages

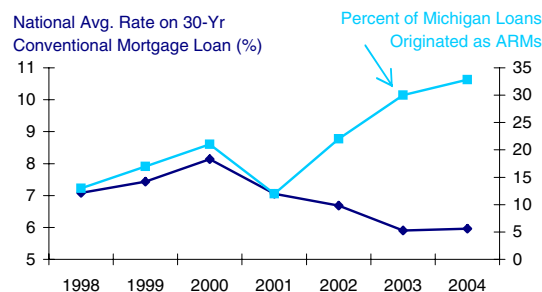
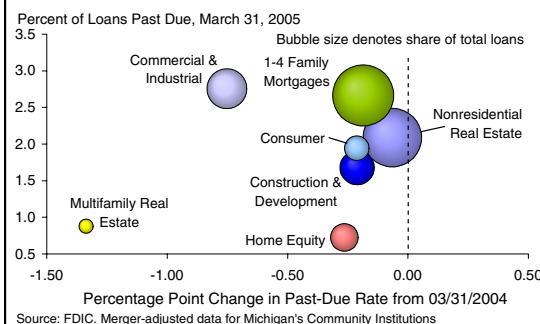


Chart 5: Loan Quality Improved Across All Portfolio Categories



<sup>1</sup>Community institutions are insured institutions with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks. Data adjusted for merger activity.

## Michigan at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	-0.1%	-0.8%	-1.2%	-2.7%	-1.4%
Manufacturing (16%)	-3.0%	-4.2%	-4.4%	-9.8%	-5.3%
Other (non-manufacturing) Goods-Producing (5%)	1.1%	0.2%	-8.1%	-1.9%	-0.2%
Private Service-Producing (64%)	0.3%	0.0%	-0.2%	-1.4%	-0.8%
Government (16%)	0.7%	-0.8%	0.2%	0.5%	1.0%
Unemployment Rate (% of labor force)	7.1	7.0	6.9	6.2	4.7

<b>Other Indicators</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Personal Income	N/A	2.4%	4.4%	-1.1%	1.7%
Single-Family Home Permits	6.9%	17.3%	-7.8%	6.4%	-16.8%
Multifamily Building Permits	-13.1%	4.4%	0.9%	-26.6%	-11.8%
Existing Home Sales	2.9%	1.0%	-3.1%	12.5%	1.2%
Home Price Index	4.9%	4.0%	3.5%	4.8%	6.5%
Bankruptcy Filings per 1000 people (quarterly level)	1.77	1.65	1.62	1.36	1.21

**BANKING TRENDS**

<b>General Information</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Institutions (#)	174	178	179	181	186
Total Assets (in millions)	206,163	199,273	172,434	173,234	178,471
New Institutions (# < 3 years)	5	5	10	13	22
Subchapter S Institutions	12	12	10	8	6

<b>Asset Quality</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.77	2.02	2.39	2.21	1.90
ALLL/Total Loans (median %)	1.23	1.28	1.34	1.31	1.28
ALLL/Noncurrent Loans (median multiple)	1.81	1.50	1.44	1.56	1.77
Net Loan Losses / Total Loans (median %)	0.10	0.11	0.11	0.11	0.10

<b>Capital / Earnings</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Tier 1 Leverage (median %)	9.41	9.17	9.01	8.89	8.94
Return on Assets (median %)	1.10	1.07	1.16	1.15	1.14
Pretax Return on Assets (median %)	1.52	1.49	1.58	1.58	1.57
Net Interest Margin (median %)	4.48	4.41	4.39	4.46	4.44
Yield on Earning Assets (median %)	7.19	7.10	7.27	7.50	7.84
Cost of Funding Earning Assets (median %)	2.76	2.71	2.88	3.04	3.40
Provisions to Avg. Assets (median %)	0.17	0.18	0.19	0.18	0.17
Noninterest Income to Avg. Assets (median %)	0.71	0.71	0.78	0.73	0.70
Overhead to Avg. Assets (median %)	3.21	3.20	3.18	3.17	3.16

<b>Liquidity / Sensitivity</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Loans to Assets (median %)	75.8	74.5	72.2	72.7	74.7
Noncore Funding to Assets (median %)	21.0	19.1	18.8	20.4	21.6
Long-term Assets to Assets (median %, call filers)	11.8	12.8	12.1	12.6	11.3
Brokered Deposits (number of institutions)	72	64	63	61	56
Brokered Deposits to Assets (median % for those above)	9.0	7.0	8.5	6.6	4.9

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q1-05</b>	<b>Q1-04</b>	<b>Q1-03</b>	<b>Q1-02</b>	<b>Q1-01</b>
Commercial and Industrial	90.5	93.2	95.1	96.5	102.2
Commercial Real Estate	250.1	235.9	217.3	201.0	181.6
Construction & Development	50.3	44.7	42.2	35.6	30.8
Multifamily Residential Real Estate	5.5	4.9	4.1	2.8	2.4
Nonresidential Real Estate	188.0	185.0	175.9	161.2	143.7
Residential Real Estate	279.2	275.4	280.9	293.2	303.5
Consumer	34.0	36.9	44.4	54.1	66.3
Agriculture	3.0	3.4	3.0	2.9	4.5

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Detroit-Warren-Livonia, MI	56	76,201	< \$250 million	120 (69%)
Grand Rapids-Wyoming, MI	31	10,940	\$250 million to \$1 billion	41 (23.6%)
Lansing-East Lansing, MI	25	4,926	\$1 billion to \$10 billion	9 (5.2%)
Ann Arbor, MI	17	4,445	> \$10 billion	4 (2.3%)
Flint, MI	13	3,782		